

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 DOEE-00 SSO-00 EA-10 SOE-02 AID-05
CEA-01 CIAE-00 COME-00 DODE-00 EB-08 DOE-15 H-01
INR-10 INT-05 L-03 NSAE-00 OMB-01 PM-05 OES-09
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 INRE-00 NSCE-00
ICAE-00 NRC-05 /129 W
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O 261507Z JUN 78
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 8187
INFO AMCONSUL CALGARY POUCH

C O N F I D E N T I A L SECTION 01 OF 02 OTTAWA 03718

PASS DOE FOR BERGOLD AND GOLDMAN, AND DOE/FERC FOR SMITH
AND ADGER

STATE FOR EUR/CAN AND EB (BOSWORTH)

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: FOOTHILLS' PIPE PROCUREMENT PLAN

REF: A. STATE 185120; B. STATE 134538; C. OTTAWA 3543;
D. OTTAWA 3524

1. SUMMARY. AMBASSADOR CONVEYED USG CONCERNS REGARDING
PROPOSED FOOTHILLS' PIPELINE PROCUREMENT PLAN TO MITCHELL
SHARP AND OTHER PIPELINE AGENCY OFFICIALS. CANADIAN RE-
SPONSE TO CONCERNS RAISED BY AMBASSADOR WAS NON-COMMITTAL
AND FOR MOST PART DEFENDED FOOTHILLS' PLAN. CANADIANS
NOTED THAT, ALTHOUGH PLAN DOES NOT SPECIFY COMPETITIVE
PROCUREMENT PROCESS, COMPETITION IS UNDERLYING ASSUMPTION
ON WHICH PLAN IS BASED AND A MAJOR CONCERN OF FOOTHILLS
GROUP. AMBASSADOR REQUESTED GOVERNMENT-TO-GOVERNMENT CON-
SULTATIONS REGARDING PROCUREMENT POLICIES FOR PROJECT.
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END SUMMARY.

2. AMBASSADOR ACCOMPANIED BY ECON OFFICER CALLED ON COM-
MISSIONER MITCHELL SHARP AT NORTHERN PIPELINE AGENCY 3 PM
JULY 25 TO CONVEY SUBSTANCE REFTELS A AND B. BASIL
ROBINSON AND BILL ANDREWS (PROCUREMENT EXPERT ON SECONDMENT
TO PIPELINE AGENCY FROM INDUSTRY, TRADE AND COMMERCE) ALSO

ATTENDED MEETING. AMBASSADOR MADE FOLLOWING COMMENTS ON PROPOSED FOOTHILLS PROCUREMENT PLAN OUTLINED IN BOB BLAIR'S JULY 11 LETTER (SEE REFTEL D):

A. CANADIAN PIPE SUPPLIERS (STELCO AND IPSCO) ARE OBVIOUSLY VERY COMPETITIVE, BUT FOOTHILLS' PROPOSED PLAN SEEMS TO EXCLUDE OFFSHORE SUPPLIERS WITH PROBABLE RESULT THAT PRICE WILL BE INCREASED.

B. HE ASKED WHAT TERM "COMMERCIAL EVALUATION" MEANS AND WHETHER THIS PROCESS IS SUBJECT TO REVIEW BY PIPELINE AGENCY.

C. PLAN'S REFERENCE TO "NATIONAL PROCURING AND SUBSIDIZING POLICIES" INTRODUCES NON-COMPETITIVE CRITERIA INTO SELECTION OF SUPPLIERS FOR PROJECT.

D. FUTURE RELATIONSHIP OF FOOTHILLS WITH SUPPLIERS, I.E., STIPULATION IN PROPOSED PROCUREMENT PLAN OF "NEED TO INSURE CONTINUITY OF FUTURE SUPPLY FROM CANADIAN PIPE VENDORS," MAY BE DESIRABLE CORPORATE POLICY FOR FOOTHILLS, BUT IT IS NOT NECESSARILY IN INTEREST OF EITHER USG DR GOC OR, MOST IMPORTANTLY, INTEREST OF U.S. CONSUMERS.

3. RESPONDING TO AMBASSADOR, SHARP AND HIS COLLEAGUES STRESSED THAT THEY ARE NOT RESPONSIBLE FOR PLAN OUTLINED
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IN BLAIR'S LETTER AND THAT THEY QUESTIONED BLAIR CLOSELY ON MANY OF SAME POINTS WHICH CONCERN U.S. OFFICIALS. AMBASSADOR POINTED OUT, HOWEVER, THAT MACEACHEN HAD ALREADY CONCURRED IN THESE GUIDELINES. AGENCY OFFICIALS OFFERED FOLLOWING CLARIFICATION:

A. FOOTHILLS' PLAN DOES NOT EXCLUDE OFFSHORE, I.E., NON-NORTH AMERICAN SUPPLIERS. FOOTHILLS WILL SUPPLY PIPE SPECIFICATIONS TO INTERESTED OFFSHORE SUPPLIERS UPON REQUEST. SHARP GAVE ASSURANCES TO JAPANESE AMBASSADOR ON THIS POINT.

B. DESIGNATION "APPROVED SUPPLIER" MEANS THAT FIRM IN QUESTION, UPON EVALUATION, IS DEEMED FINANCIALLY AND TECHNICALLY CAPABLE OF MEETING ITS OBLIGATION TO SUPPLY PIPE UNDER CONTRACT. IN INSTANCE OF 56-INCH PIPE, STELCO AND IPSCO MEET THIS REQUIREMENT.

C. PIPELINE AGENCY OFFICIALS MAINTAINED THAT "COMMERCIAL EVALUATION" IS STANDARD PRACTICE OFTEN CARRIED OUT TO ESTABLISH LIST OF QUALIFIED BIDDERS BEFORE BIDS ARE LET. FOOTHILLS' PLAN CONFORMS TO THIS PRACTICE.

D. AGENCY WOULD NOT, HOWEVER, REVIEW RESULTS OF COMMERCIAL EVALUATION. AGENCY WOULD NOT INTERVENE AT THIS "PRE-QUALIFICATION STAGE" UNLESS THERE WAS EVIDENCE OF NON-COMPETITIVE PRACTICE.

E. BECAUSE CONSIDERATION OF "NATIONAL PROCURING AND SUBSIDIZING POLICIES" IN EVALUATION OF BIDS APPLIES EQUALLY TO CANADIAN AND FOREIGN SUPPLIERS, IT IS NOT DISCRIMINATORY, AND THEREFORE NOT A NON-COMPETITIVE PRACTICE.

F. FOOTHILLS ASSERTS (AND PIPELINE AGENCY OFFICIALS

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F. FOOTHILLS ASSERTS (AND PIPELINE AGENCY OFFICIALS AGREED) THAT CONCERN FOR FUTURE RELATIONSHIP WITH PIPE SUPPLIERS IS EFFECTIVE PRICE AVERAGING POLICY THAT HAS ENABLED AGTL IN PAST TO PROCURE PIPE FROM CANADIAN SUPPLIERS DURING WORLD STEEL SHORTAGES WITHOUT DELAY AND AT LOWER THAN PREVAILING PRICE. THIS POLICY HAS, THEREFORE, BENEFITTED CONSUMERS.

G. ALTHOUGH NOT STATED IN PLAN, FOOTHILLS' PROCUREMENT POLICY IS IMPLICITLY INTENDED TO BE COMPETITIVE, AS WAS INDICATED PREVIOUSLY BY BLAIR'S TESTIMONY BEFORE PARLIAMENTARY COMMITTEE HEARING ON PIPELINE BILL.

4. AMBASSADOR REPLIED THAT ONE COULD INTERPRET FOOTHILLS' GUIDELINES AT ONE EXTREME SO THAT THEY GAVE RESULT SIMILAR TO COMPETITIVE GUIDELINES. BUT NOWHERE WAS COMPETITION

REQUIRED, AND THEY COULD ALSO BE INTERPRETED TO JUSTIFY PROCUREMENTS THAT WOULD BE SHARPLY MORE COSTLY THAN COMPETITIVE BIDS. WHAT IS NEEDED IS A SET OF GUIDELINES THAT WILL SET UP THIS COMPETITIVE PROCESS.

5. SHARP SAID CANADA HAS TWO CONCERNS ABOUT U.S. PROCUREMENTS.
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MENT PRACTICE: (A) SINCE NO FORMAL PUBLICITY ARRANGEMENTS ARE IN FORCE (AS IN CANADA), CANADIAN FIRMS MAY NOT KNOW WHEN OR WHAT TO BID ON; (B) ENGINEERING CONTRACT TO NORTHWEST HAD BEEN LET "UNCOMPETITIVELY" AND WITHOUT KNOWLEDGE OF CANADIAN INDUSTRY. (WE WERE SUBSEQUENTLY ABLE TO INFORM SHARP SOME 12 FIRMS--BUT NO CANADIAN--HAD COMPETED FOR THIS CONTRACT.)

6. AMBASSADOR THEN SUGGESTED THAT WE GET OUR PROCUREMENT EXPERTS TOGETHER TO WORK OUT ACCEPTABLE PROCUREMENT PROCEDURES ON BOTH SIDES UNDER PARAGRAPHS 7 AND 8 OF AGREEMENT. SHARP AGREED THERE ARE IMPORTANT QUESTIONS TO DISCUSS, BUT DID NOT COMMIT HIMSELF PENDING INDUSTRY CONSULTATIONS.

7. AMBASSADOR LEFT DISCUSSION PAPER COVERING POINTS IN REFTELS FOR FURTHER REVIEW AND COMMENT BY PIPELINE AGENCY OFFICIALS. TEXT OF DISCUSSION PAPER FOLLOWS BY SEPTEL.
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